



## **PLEXUS Market Comments**

MARKET COMMENTS – AUGUST 26, 2021

NY futures rebounded this week, as December gained 140 points to close at 94.16 cents.

December recovered from last week's selloff and while it still has some work to do before it catches up to the 96.71 intraday high of last Tuesday, it settled today just 74 points shy of its contract high close.

Price action has been quite constructive, as several attempts to sell off have been thwarted, with December closing 127-130 points above the intraday low in three out of the last five sessions. This shows that there is strong underlying support in the low 90s!

The latest CFTC spec/hedge report for the week of August 11-17, when December traded between 91.00 and 96.71 cents, showed a further strong increase in the spec long and trade short positions.

Speculators added another 1.03 million bales net to boost their net long to 9.88 million bales, while index funds increased their net long by 0.17 to 8.57 million bales net.

On the other side the trade continued to add more hedges on the way up, as its net short grew by 1.20 to 18.44 million bales net.

Although the speculative position is getting into 'nosebleed' territory, it still has room to grow by another 2.5 million bales before it reaches its record of 12.37 million bales, which was set in February 2017.

For the trade we need to go back to late February 2008, when its net short had reached 23.81 million bales, which set up the brief but brutal short-covering rally a week later. This was followed by massive spec long liquidation, as the Financial Crisis of 2008 unfolded later that year.

The speculative net long position had reached 10+ million bales on three previous occasions between 2007 and 2018, and every time it was followed by a steep long liquidation of at least 10-11 million bales net within a six-month period.

The biggest net change occurred between August 2018 and February 2019, when a 12.24 million bale net long turned into a 2.80 million bale net short, a swing of over 15 million bales. For now all seems well with this bull market, but history has shown that we need to be on the lookout for a potential inflection point.

US export sales remained strong, as 327,300 running bales of Upland and Pima cotton were added for both marketing years. This time it was Central America who led the field, with Salvador (115,100 RB) and Honduras (45,400 RB) accounting for nearly half of all sales. In total there were 16 markets buying, while 23 destinations received shipments of 209,700 running bales.

Total commitments for the current season are now at 5.75 million statistical bales, of which 0.65 million bales have so far been exported. This compares to 7.25 million sold and 1.05 million shipped a year ago.

Chinese prices have softened a bit this week, as the most actively traded Jan contract dropped over 3 percent, but was

still at a lofty 123 cents/lb, or nearly thirty cents above NY futures, while the CC Index calculated at an even stronger 127 cents/lb.

The latest statistics show that China imported 12.87 million bales of cotton in the 2020/21-season, which compares to the latest USDA figure of 12.75 million bales. China was also very active in cotton yarn, taking in 2.04 million tons or the equivalent of 9.37 million statistical bales. Both figures are up considerably from the previous season, when cotton imports amounted to 7.13 million statistical bales, while yarn equated to 7.86 million bales.

The US crop continues to progress well, with 71% now rated in the good/excellent categories, which compares to just 46% a year ago. The crop is still generally a bit late, but hot weather in West Texas has allowed for some heat unit accumulation and the 10-day forecast remains favorable.

However, we now have tropical storm "Ida" in the Gulf of Mexico, which is threatening to hit the Louisiana coastline as a major hurricane by early next week. This will likely get the attention of the market over the coming days.

By the time the storm arrives, open bolls will be at around 50% for Louisiana and 40% for Mississippi. The Coastal Bend of Texas poses a bigger problem, because the crop is ready for harvest and therefore fully exposed. We all remember Hurricane Harvey in late August 2017, which caused major devastation to the Houston area as a category 4 system.

### **So where do we go from here?**

Spec longs and trade shorts have been keeping each other in check lately, as their positions have expanded to historically significant levels. Sooner or later this stalemate is likely to break, with the bulls seemingly having the better odds, at least that's what the options market is telling us.

If something were to spook the 14.69 million bales in unfixed on-call sales into covering, we could see the market fly higher, similar to what we saw in 2008. On the other hand, we feel that financial markets are priced to perfection and it won't take much to trip up the spec long if the rosy scenario suddenly were to change.

While the market doesn't display much momentum right now, these large positions almost guarantee that we are in for a volatile ride and a major move over the next couple of months!

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